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C O N F I D E N T I A L SECTION 01 OF 04 TAIPEI 003233

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SUBJECT: TAIWAN DEFENSE BUDGET BATTLE IN FALL LY SESSION
TESTS BLUE LEADERS' ABILITY TO DELIVER RANK AND FILE

REF: A. TAIPEI 02513

- 1B. TAIPEI 00029
- 1C. TAIPEI 01328
- 1D. TAIPEI 01339
- 1E. TAIPEI 02835
- 1F. TAIPEI 03038

Classified By: AIT Director Stephen M. Young. Reason(s):
1.4 (B/D)

11. (C) Summary. Opposition Kuomintang (KMT) Chairman Ma Ying-jeou and other party leaders are saying they want to move forward on defense procurement when the fall Legislative Yuan (LY) session begins September 19. While Ma has repeatedly assured AIT he is serious about defense and wants to pass a "reasonable" defense budget, he has yet to demonstrate sufficient influence over fractious KMT legislators to ensure their cooperation. Recent reports of his agreement with KMT LY Speaker Wang Jin-pyng in support of the defense budget suggest there may be movement on this issue this year. At DIR's meeting with Defense Minister Lee Jye September 18 (reported septel), Lee said he expects most of the budget items to be approved, except for the PAC-III missiles. Heightened political tensions aroused by the ongoing "Depose President Chen" demonstrations, however, could complicate LY prospects for passing the full defense budget. How much of the proposed 2007 defense budget will be approved by the opposition-controlled LY will largely depend on the leadership of the pan-Blue camp, most notably that of Chairman Ma Ying-jeou. (Comment. Although no one expects the full bill to be passed, approval of key U.S. weapon systems and a significant increase in the overall budget could be a sign of renewed movement in building up Taiwan's defense. End Summary.

Defense Budget Proposal: A Creditable Package

12. (C) Taiwan's 2007 defense budget submitted to the LY on August 31 increases defense spending by 28 percent to NTD 311.5 billion (USD 9.6 billion), equal to 2.85 percent of GDP. After two years of legislative gridlock, the tripartite U.S. weapons package has been shifted from a problematic "Special Budget" into the regular defense budget:

1) P-3C ASW aircraft ----- NTD 6.14 bil (USD 192 mil)

¶3. (C) In addition, the Ministry of National Defense (MND) budget proposal includes NTD 16 billion (USD 502 million) for the first year of an eight-year purchase of F-16C/D fighter jets, despite the fact that the aircraft have not yet been approved for sale to Taiwan. (Note: The above figures were provided to AIT by MND; AIT is working with MND to obtain an official copy of the full defense budget. End Note.)

¶4. (C) One complicating factor is the "Supplemental Defense Budget" left over from the June 2006 LY Special Session, which did not pass the LY at that time and, therefore, remains on the LY fall agenda. It consisted of P-3C aircraft (NTD 1.7 billion/USD 52 million), diesel submarine feasibility study (NTD 600 mil/USD 19 mil), and PAC-II upgrades (NTD 3.7 bil/USD 114 mil) replacing the PAC-III missiles in the long-stalled Defense Special Budget. MND hopes passage of the Supplemental Budget could serve as a quick first step to passing the 2007 defense budget. However, KMT LY Defense Committee member Lin Yu-fang told AIT on Sept 14 that the pan-Blue committee members intend to immediately vote down the Supplemental Budget in order to start serious consideration of the 2007 defense budget. (Note. DIR nevertheless heard at a meeting Sept 18 with Defense Minister Lee Jye that MND is still intent on getting the 2006 Supplemental passed. End Note.)

The Greens: Preaching to the Choir

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15. (C) The Chen administration and minority Pan-Green legislators from both the ruling Democratic Progressive Party (DPP) and the "deep-Green" (pro-independence) Taiwan Solidarity Union (TSU) are fully on board the defense budget proposal submitted to the LY on Sept 1. While AIT regularly reminds both Taiwan government officials from President Chen down and pan-Green legislators that Taiwan must do more to provide for its own defense, this is largely "preaching to the choir," since both already support a strong defense. Both groups, however, tell AIT that USG statements have been helpful in giving them leverage with defense budget opponents.

The Blues: There's the Rub

¶6. (C) It is the opposition pan-Blue majority, however, that will determine the fate of Taiwan's 2007 defense budget. The pan-Blue camp's 123 seats (90 KMT, 21 PFP, 12 independent) of the current 221 LY seats gives the Blues final say. It was this pan-Blue majority that blocked the Defense Special Budget from even being considered by the LY for the past two years.

¶7. (C) In recent weeks, KMT leaders and key legislators have indicated publicly and privately to AIT that they are ready to move forward and approve some or all of the proposed defense items in the 2007 defense budget proposal. They usually caveat these pledges, however, by specifying they support only "reasonable defense procurement," a nebulous exception that leaves room to justify almost anything they ultimately decide to do. (Comment: Inclusion of PAC-III missiles in the 2007 defense budget, for example, appears to be a non-starter, as Blue legislators uniformly tell AIT that they will not approve acquisition of PAC-III missiles until after the three-year defense referendum moratorium expires in March 2007. End Comment.)

KMT Leaders: Reasonableness and Statesmanship

¶ 8. (C) KMT Chairman Ma Ying-jeou and LY Speaker Wang Jin-pyng (KMT) have both told the Director on several occasions that they want to move ahead on arms procurement and get the defense issue out of the way. Both men insist there is a KMT consensus in favor of certain weapons systems, notably P3-C aircraft and the submarine design-feasibility study, while the PAC-II upgrades are still under discussion. Most recently, on Sept 11, Speaker Wang told the Director "the time has arrived" for the KMT to push for resolution of the defense budget question (Ref A). On Sept 7, Ma and Wang held a publicized meeting in which both men agreed they would support "reasonable arms procurement," though they did not specify publicly which systems.

KMT Legislators: Maybe, With Caveats

¶ 9. (C) The KMT legislative caucus is dominated by a number of defense critics who do not like to take orders from the party Central Committee and whose voices overpower more moderate legislators. Neither Speaker Wang nor Chairman Ma has established effective control or influence over the KMT legislative caucus. On several occasions, in fact, Ma has been publicly embarrassed by failing to gain KMT legislators' support for his public pledges, demonstrating the tenuousness of his relationship with KMT legislators and the uncertainty of his legislative pledges (see Ref B).

¶ 10. (C) Two of the most influential KMT legislators on defense issues are Defense Committee members Su Chi and Lin Yu-fang. On Sept 8, Su Chi, the LY Defense Committee Chairman and a close advisor of Chairman Ma on defense and cross-Strait policy, told AIT that he, KMT Vice Chairman John Kuan (Kuan Chung), and Ma agree that the defense budget issue must be resolved this LY session so that Ma can avoid PRC pressure to forego arms purchases if and when he becomes president in 2008. Su, who is adamantly opposed to inclusion of PAC-III missiles in the 2007 defense budget, also expressed hesitation over the proposed PAC-II upgrades,

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arguing that MND had not explained why they were essential to Taiwan's defense. He also conveyed his and Ma's concern over the submarines because of their high cost, delayed delivery and potential destabilizing impact on cross-Strait relations.

Su said he would rather spend money on new F-16s to improve Taiwan's air defense capability.

¶ 11. (C) Lin Yu-fang, who was a major factor in blocking the Defense Special Budget for the past two years, told AIT that the KMT is working toward a consensus on the defense budget. While he inveighed against MND's proposal to purchase F-16 fighters -- "no way" would the KMT approve this without a firm U.S. commitment -- he detailed KMT views on other weapons systems in the 2007 defense budget:

-- P-3C aircraft: "No problem," the KMT legislative caucus will approve the P-3C's, Lin told AIT. After thinking a moment, Lin added cryptically that "some" KMT legislators are not happy about the designated U.S. contractor, which could affect their support for the P-3C's.

-- PAC-II missile upgrades: Lin was dubious about the proposed upgrades, arguing that he would prefer that Taiwan purchase "more suitable" PAC-III missiles, but only after expiration of the three-year waiting period required by the March 2004 defense referendum.

-- Diesel electric submarines: While some KMT legislators wanted to approve the proposed feasibility study for eight submarines, Lin said, the KMT LY caucus would probably cut the proposed budget because of the high cost and because, he argued, it would give Taiwan nothing concrete.

¶12. (C) Complicating KMT efforts to pass the defense budget is the negative stance of pan-Blue partner People's First Party (PFP) and its mercurial leader, James Soong. With its 21 seats critical to the pan-Blue's slender legislative majority, PFP has been able exert inordinate influence over the KMT on defense procurement, notably in blocking the Defense Special Budget for the past two years. This naysaying may continue into the fall LY discussion of the defense budget. Speaker Wang Jin-pyng told the Director on Sept 11 that Soong was already working to reduce the proposed P-3C package from twelve to eight or ten aircraft.

¶13. (C) KMT legislators tell AIT they must tread carefully on defense procurement and not alienate the anti-defense PFP in order to maintain the pan-Blue LY majority. While the KMT could conceivably join with the DPP and TSU and pass some or all of the defense budget, the PFP has one further hold over the KMT -- its threat to join with the DPP and pass a resolution to investigate KMT "ill-gotten" property if the KMT defects on the arms issue.

DPP Legislators Cautious

¶14. (C) For their part, after two years of legislative gridlock, DPP legislators are pessimistic that pan-Blue legislators will approve the full defense budget this go-round, or even some of the larger weapon systems. Rather, Lin Cho-shui predicted to AIT that Blue legislators would probably sharply cut the proposed defense budget. DPP legislator and LY Defense Committee member Shen Fa-hui, on the other hand, told AIT that he expected passage of some defense weapons procurement if KMT Chairman Ma Ying-jeou is able to exert leadership over the KMT LY caucus. However, he added, political tensions between Blue and Green camps, exacerbated by the "Depose Chen" movement currently underway, could complicate forward movement on the defense budget. The fall LY session, he suggested, would be the last chance to approve these weapons systems because the upcoming series of elections would effectively block cross-party legislative cooperation for the next eighteen months.

Comment: Promises to Keep or Just One More Mirage?

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¶15. (C) The LY Defense Committee will pass the defense budget later this fall. The operative question is how much and which items will the Committee cut from the MND proposed budget? Will KMT legislators' pledges of support for the defense budget pan out this time or will they once again turn recalcitrant under the press of partisan politics? If the heightened state of political tensions aroused by the ongoing "Depose Chen" movement continues into the fall LY session, it could encourage Blue legislators to oppose arms procurement that might benefit President Chen. (Lin Yu-fang, for example, is a "Deputy Commander" of the "Depose Chen" movement.) In addition, legislators also voice enough signs of hesitation on all three weapon systems (see paras 10-11) to give themselves a grab-bag of excuses for reducing one or more weapon systems. In their item by item vote on the defense budget, Defense Committee members will be able to exercise their one budget power -- the power to either pass, reduce or zero-out proposed budget items. Every reduction, moreover -- such as the likely vote against PAC-III missiles -- will automatically reduce the total defense budget and, therefore, the 2.85 percent of GDP target.

¶16. (C) Chairman Ma and Speaker Wang's statements of support for the defense budget appear genuine and well-intentioned. However, neither man has to date demonstrated sufficient influence over KMT legislators to ensure confidence in their legislative pledges. KMT legislative caucus voting on

defense issues is often determined by its most forceful and hard-line members, who tend to resist taking direction from the party Central Committee. DPP legislator Shen Fa-hui told AIT that Ma will have to exert much stronger leadership over the KMT LY caucus to ensure KMT legislators approve all or most of the proposed 2007 defense budget. KMT legislative action on the 2007 defense budget this fall will, thus, be a test case of Chairman Ma's leadership and his ability to carry out his pledges to "get the defense budget issue behind" him and the KMT.

YOUNG